

Quarterly Report: January – March 2004

USAID-Nigeria Budget Process Support Project  
Contract No: PCE-I-00-00-00015-00

Development Alternatives, Inc.

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## **USAID-Nigeria Budget Process Support Project**

### **Quarterly Report: January – March 2004**

#### **Executive Summary**

- The Macroeconomic Advisor was engaged in a tour of duty. He reviewed the issues pertaining to the 2005 Fiscal Strategy, provided guidance on data development, and met with the Macroeconomic Working Group. In addition, two visiting experts provided assistance in the areas of human resource and information technology.
- The COP attended various meetings, provided input, and kept the Mission abreast of developments, particularly in the area of the Federal Government's reform blueprint for poverty reduction and wealth creation - National Economic Empowerment and Development Strategy (NEEDS).
- The Budget Office held a retreat and outlined the goals and milestones for 2005.
- USAID Mission Director met with the Director General of the Budget Office to review the targets and consistency of the program vis-à-vis the BOF's and the Government's reform goals.
- The Federal Government released the initial version of the NEEDS.
- Work commenced on a revised workplan for 2004-2005 to realign the priorities of the Budget Office of the Federation and the economic reform agenda of the Government.
- Following a due process, an administrative assistant was hired.

#### **Activity Objectives**

In August 2002, USAID/Nigeria awarded Development Alternatives, Inc. (DAI) a Task Order under the SEGIR: Economic Policy Indefinite Quantity Contract to implement the "Technical Assistance in Budget Process Support Project" (BPS). The project has a total value of \$2,557,000 and an anticipated completion date of March 2005.

The BPS project assists two agencies of the Federal Government of the Republic of Nigeria that are essential to the national budgetary process-the Budget Office of the Federation (BOF) in the Ministry of Finance, and the Budget Monitoring and Price Intelligence Unit (BMPIU) of the Office of the President. The BOF is the principal agency responsible for the Federal budget. The BMPIU is mandated to ensure accountability and probity for the Due Process of Federal

procurement and contracts. A senior long-term technical advisor, who is also the Chief of Party (COP), and short-term technical advisors are working to enhance the government's capacity to develop, implement, coordinate, and monitor the national budgetary process, and support the BMPIU's activities.

## Quarter Progress

- **Macroeconomic Assistance:** In February-March period, Dr. Ulrich Ernst, the Macroeconomic Advisor provided assistance with respect to macroeconomic capacity building. He also undertook activities that included inputs to the Fiscal Strategy for the 2005 Budget, non-oil revenues, and the workplan for 2004-2005.

A few comments are warranted with respect to the Fiscal Strategy.

In its draft NEEDS document, Nigeria's economic team has identified the preparation, circulation and discussion of a *fiscal strategy paper* as a priority "tool for specifying priorities and facilitating trade-offs engaging the Executive, Legislature, and Civil Society." The fiscal policy paper, which is the responsibility of the Director General (Budget), in effect, establishes the overall framework for the budget exercise. The current plan is to prepare the fiscal strategy paper for fiscal year 2005 for a three-year period (2005-2007), as a first step towards building a Medium Term Expenditure Framework (MTEF).

The Fiscal Strategy is guided by and, in turn, forms the macroeconomic framework. The preparation of the macroeconomic framework across the four main sectors (production and consumption, banking, government, and balance of payments) is currently a distributed responsibility and coordinated by the Economic Adviser to the President. The Central Bank of Nigeria is responsible for forecasts of monetary aggregates and the behavior of the balance of payments. The National Planning Commission (NPC) provides forecasts of total production, aggregate consumption, investment and related indicators of the "real" sector. Finally, the BOF is responsible for forecasts of key aggregates for the government sector.

Taken together, these forecasts establish the macroeconomic framework for the budget. At present, the BOF faces two challenges with respect to the macroeconomic framework and the associated fiscal strategy. First, its own contribution to the macroeconomic framework and forecasts of major indicators for the government sector are not derived in an internally consistent manner. For example, functional links between public sector borrowing requirements and the debt service burden are not fully used. The second challenge lies in the use of the macroeconomic framework in the actual budget preparation. From the BOF's point of view, the relationship is currently a linear one: the macroeconomic framework is

given, and the fiscal strategy and budget accommodate the forecasts. In contrast, the relationship should be more of a circular or iterative nature. Fiscal strategy options define the premises for the macroeconomic framework, which can therefore not be treated as a given. While the BOF will *not* be responsible for pulling the different elements together into a coherent macroeconomic framework, it needs the capability to assess the macroeconomic implications of different options as it develops the fiscal strategy for the country. That capability becomes even more critical as the budget process is moving toward an MTEF.

Supporting the Macroeconomic Working Group will continue so that the members could contribute inputs to the Fiscal Strategy.

Finally, the project is placing increased emphasis on non-oil revenues. The Federal Inland Revenue Service and Customs Service provided data that would be used to develop and calibrate a receipt-forecasting model.

- **Information Technology (IT) Assistance:** In February 2004, Mr. Guillermo Jacoby, an IT Advisor conducted a review of the current situation and the IT needs for the BOF and the BMPIU.

With regard to the BOF, the review focused on the needs related to automating the budget formulation, evaluation, execution, and reporting processes. Currently, the BOF has little IT capacity in terms of both systematization and hardware, and its staffs lack appropriate skills. Access to a computer is limited to Directors and Deputy Directors. There is virtually no access to the Internet from the office, and internal electronic communications are almost non-existent<sup>1</sup>. In summary, technology within the BOF is not making a significant impact on productivity and efficiency. While some computer training has been given to employees within the BOF (including by this project), lack of equipment makes the training pointless. Intra-departmental information flow and exchange is manual. Expenditure inputs from the line ministries to the Budget Circular – a vital element of the budget process worldwide – largely flow in a manual fashion. Data from the Federal Inland Revenue Service (FIRS) and the Nigerian Custom Service (NCS) are submitted manually, accounts inflow from the Accountant General of the Federation (AGF), and debt data from the Debt Management Office (DMO) depend on manual processes as well. The assessment revealed that the BOF (and the Ministry of Finance) is seriously deficient in three basic elements of financial management:

- weak support for data collection;
- data registration – a vital function for the Budget Office; and
- data control to ensure authorized spending of public funds.

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<sup>1</sup> The Director General, BOF is taking progressive steps to ameliorate this situation.

Taken together, these deficiencies hinder accurate flow of information to the executives, limit choices and thus undermine sound decision-making.

The IT Advisor also reviewed various information technology needs of the BMPIU. These included steps to develop a website, review of a scheduling software for the Due Process of contract/tender mechanisms.

- **Human Resource Assistance**

BOF

Dr. Mel Schnapper, an expert on human resources provided a second phase of assistance, which focused on creating a more effective personnel structure for the BOF. The first phase, in November 2003, was mostly diagnostic and surveyed a host of human resource management and development issues such as career mobility, performance appraisal, reward systems and performance management. All of these were found to be rigid regarding how they might be modified to support the alignment process envisaged by the BOF. This second report revealed progress and enthusiasm for the alignment process, even when officials/participants knew that these might not add to their rewards or prospects for promotion. As the Director General (DG)-Budget formulates a strategic plan with Goals, Objectives, and Initiatives, the plan remains a dynamic management tool, as it must be. Many of the applications of the alignment process will improve the personnel restructuring procedures.

This phase focused on creating greater alignment between the BOF Strategic Plan and the various departments: Fiscal, Revenue, Expenditure, Budget, Monitoring and Evaluation, Accounts, Administration, and the Management Information Systems Unit. This was done by choosing, as much as possible, the specific Goals, Objectives and Initiatives from the Strategic Plan and creating Departmental Key Value Areas, Objective and Initiatives (who does what by when and how well) that identifies the action plans for implementation of the Strategic Plan.

The assessment also described the issues and challenges that were encountered during the process of alignment and what has to change to make the alignment and implementation proceed more effectively so that the BOF can make a significant contribution to the Ministry of Finance. The Phase One report (November 2003) had described the specific issues and problems of the Nigerian Federal Civil Service, specifically with regard to providing incentives for above-standard performance. This is a challenge for civil services worldwide. The current findings revealed the enthusiasm by the BOF officials on new ideas and clarity about how they can add value.

### BMPIU

The BMPIU is a fairly new unit with the mandate to oversee the Due Process, eliminate and reduce corruption in the area of Federal government contracts for all Government ministries. To accomplish this, the Unit has hired about 12 consultants who are thorough professionals and had previously managed their own businesses. As the BMPIU is reaching a new stage of maturity, the Senior Special Assistant to the President, the Head of BMPIU, would like to “regularize” or offer the consultants full-time employment positions and has requested assistance in finding ways to make an attractive employment package for these or similar candidates or candidates who might be slightly junior.

Because of their highly professional nature and their previous history of making significant salaries, this will have to be offered more than just financially attractive compensation.

As was determined by the initial report, the staff members claimed that they receive insufficient support for professional development and raised the following issues:

- Official leave and sponsorship to attend professional meetings that are relevant;
- A mandate and time to train to be more technically supportive of their efforts;
- Junior counterparts who could help;
- Opportunities where their motivation to accept full-time employment with the BMPIU would be realized. The staff described the motivation as an impact at a national level fostered by the commitment of the President to eliminate corruption.

Factors that would make their employment more attractive and contribute to their immediate effectiveness are:

- More sector specialists for monitoring and services in various areas: electrical engineering, mechanical engineers with expertise in power and transmission, power generation, and information technology;
  - Use of specialized software to enhance project management and evaluation capacity;
  - Access to a local area network (LAN);
  - Training in power plant construction and other areas.
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- **Retreat of the Budget Office of the Federation:** In late January 2004, the BOF held a retreat to chart a new road map that would support the reform process. The retreat focused on the following themes:
    - Increase revenues
    - Control spending
    - Reduce debt

- Direct the bulk of capital spending towards the priorities of the Government
- Ensure value for money on spending in revenues and expenditures
- Put controls in place to ensure continuity of policies and programs

The Director General, BOF outlined a series of milestones and goals that include:

- Release of a sound fiscal strategy
- Introducing multi-year budgeting
- A consultative process for the 2005 Budget
- Early release of the Call Circular

At the request of the DG-Budget, the COP presented an overview of the assistance that would support the goals of the BOF. In addition, the IT Advisor summarized the challenges that lie ahead in this area for the BOF and its key partner agencies.

Annex I presents a summary.

- **USAID Meeting with the Budget Office:** USAID Mission Director had requested a meeting with the Director General, BOF, to deepen the liaison with the BOF, ascertain necessary realignments vis-à-vis the newly initiated economic reform agenda of the Government, and establish a process to jointly review progress of the BPS Project.

At a meeting held on March 9, 2004, the Mission Director remarked that as the BPS Project was shaped under the aegis of the previous economic leadership, it is imperative to ensure that the project's goals are attuned to the Government's reform initiatives, as this would support the nascent ownership, a critical element.

The DG-Budget unequivocally expressed his sincere appreciation for the assistance received and remarked on the excellent rapport. He emphasized the benefits from strengthening analytical capacity in various areas including macroeconomic and fiscal analysis, information technology, and human resources. He requested assistance in the areas of chart of accounts and budget consultation on an urgent basis.

Annex II provides a summary.

- **NEEDS:** On March 15 2004, the Federal Government released the initial version of the National Economic Empowerment and Development Strategy (NEEDS), predicated on a macroeconomic framework with three main pillars<sup>2</sup>:

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<sup>2</sup> As requested by the USAID Mission, a separate analytical note was prepared; it is included in Annex III.



- **Reforming Government and its Institutions.** This would include basic public sector reforms, privatization, deregulation, liberalization, good governance, anti-corruption and service delivery.
- **Growing the Private Sector.** This involves targeted sectoral strategies, security, rule of law, infrastructure, trade and regional integration.
- **Social Charter and Human Development Agenda.** Priorities include health, education, integrated rural development, employment, safety nets for the poor, gender and geopolitical balance.

It will undergo consultation in the immediate months ahead. While the NEED Strategy would have some implications for the Project, it is encouraging to note that the focus of assistance within BPS is largely consistent with this blueprint on reform.

- **Workplan:** Work commenced on a revised workplan for 2004-2005 to realign the priorities of the Budget Office of the Federation and the economic reform agenda announced in the NEEDS.
- **Project Support:** Following a diligent due process, the Project employed an Administrative Assistant.

## **Project Changes**

In view of the evolving priorities of the BOF, the BMPIU and the Government (e.g., NEEDS), the workplan and an accompanying is being realigned. The salient points are:

- Finalize the workplan;
- Realign the budget;
- Consider hiring an additional economist with background in econometric software and knowledge of public finance;
- Higher costs for workshops to meet the BOF's strategy;
- Increased support to the BMPIU to support its enhanced role in the Due Process mechanism.

## **Impact on Intermediate Result**

**12.4: GON economic policy formulation process improved:** The project's goals are beginning to yield results that would improve the policy environment. These include commitment by the BOF to adopt the revised chart of accounts, engage in wide consultation for the budget process, and introduce a multi-year budgeting – a first-ever initiative to pave the way for the MTEF.

## **Problems and Opportunities/Upcoming Events**

### Problems and opportunities

The project faces various challenges as well as opportunities. A few are outlined below:

- Weak capacities of government officials will require on-going support.
- Many officials are not adequately trained or have the understanding in public finance and this poses a problem of the need, absorption, and relevance of the technical assistance in this area.
- The civil service rules neither encourage nor innovate the delegation of authorities. This poses a significant burden on lower level staff to take concrete decisions and, in turn, impacts on the decision-making steps for this project.
- The macroeconomic working group will continue to need assistance to make a positive impact on the budget process.
- Liaison with **other USAID Implementing Partners** will support cross-cutting objectives.
- In summary, the BPS project is well positioned to make a positive difference in improving the budgetary process and support the Government in its economic reform initiatives.

### Upcoming Events

The project will evolve with the priorities of the Government. Future activities include assistance in the following areas:

- Continue to support the Macroeconomic Working Group – BOF and other agencies
- Initiate steps to provide input to the 2005 Fiscal Strategy and hold a workshop – BOF and other agencies
- Introduce and hold workshop(s) regarding the revised chart of accounts – BOF, line ministries
- Reinforce macroeconomic and budgeting skills – BOF
- Review and focus on non-oil revenue sectors – BOF
- Consultation regarding the budget process
- IT Assessment – BOF and BMPIU (dependent upon the timing of the beneficiary agencies)
- Release letter of offer for tendering website developments for the BOF and the BMPIU
- Initiate tender magazine/bulletin for the Due Process mechanisms of the BMPIU
- Organizational development and human resource management – BMPIU (dependent upon the timing of the beneficiary agency)
- Visits by four visiting experts (TDY) in the following areas:
  - macroeconomic/fiscal analysis for input to the 2005 Fiscal Strategy;
  - tender magazine/bulletin for the Due Process mechanisms of the BMPIU;
  - MTEF; and

- budgeting.
- Continue to support the NEEDS process through fiscal reform – Federal Government

## **TraiNet**

Weekly training in the area of macroeconomic training continued (see Annex IV for details). No off-site workshop was held during the reporting period. A separate report is submitted to USAID's officer responsible for this area.

## Annex I

### Retreat - Budget Office of the Federation; January 23-25, 2004 Summary

#### **I. Themes**

- Increase revenues
- Control spending
- Reduce debt
- Direct the bulk of capital spending towards the priorities of the Government
- Ensure value for money on spending in revenues and expenditures
- Put controls in place to ensure continuity of policies and programs

#### **II. Approach and Methods**

##### **Increase Revenues**

- Grow Government revenues particularly in the following areas:
  - ☐ Petroleum Profits Tax
  - ☐ Non-oil taxes
    - Companies' Income Tax
    - Customs & Excise Duties
    - Value Added Tax
  - ☐ Independent revenue

##### **Control Spending**

- Control Government spending by
  - ☐ Set aggregate spending limits
  - ☐ Ensure that expenditure levels are sustainable and can be financed
  - ☐ Change the mix of spending by
    - Reduce spending on payroll and overheads
    - Reduce spending on debt service
    - Increase spending on capital projects
    - Ensure that pension obligations are met as and when due

##### **Reduce Debt**

- Initially reduce
  - ☐ Total debt relative to Income (GDP)
  - ☐ Interest cost relative to Government revenue
- Later reduce
  - ☐ Debt in nominal terms
  - ☐ Interest cost in nominal terms

### **Target Development and Capital Spending vis-à-vis Priorities**

- ☐ Link spending towards the priorities of government
- ☐ Priorities set by the President
- ☐ Initiatives aimed at
  - Growing revenues
  - Reducing payroll and overheads
  - Reducing debt

will enhance the size of discretionary funds available for capital expenditure

### **Enhance Revenue Collection, Increase Expenditure Efficiency, Boost Value for Money**

- Database on revenue sources and drivers of revenue
  - ☐ Employees
  - ☐ Pensioners
  - ☐ Salary structures
- Database on debt
- Bases of computing transfers
- Bases for allocating capital votes
- Due Process
- Ministries, Departments and Agencies to define output in clear measurable terms
- Budget Office to monitor output and report
- Corrective actions

### **Link Controls with Policies and Procedures**

- Oil-price based fiscal rule
- Aggregate expenditure ceiling
- Borrowing limits
- Revenue collection efficiency
- Documentation of fiscal strategy
- Documentation of budget processes
- Fiscal Responsibility Bill
- Medium Term Expenditure Framework

## **III. Yearly Agenda of the BOF**

- Q1
  - Fiscal strategy initiated
  - Green book for customs (tariff rates)
  - 2004 Budget approval – February 20
  - 2004 Budget reporting format
- Q2
  - Interactive dialogue with civil society, National Assembly etc.
  - Fiscal strategy paper completed
  - Introduce multi-year budgeting

- Q3
  - Release 2005 call circular
  - Complete consultation with line ministries (July)
  - Draft 2005 Budget – end-August
  - Finalize draft 2005 - September
- Q4
  - Approve 2005 Budget - November

## Annex II

### **Meeting Summary USAID Mission Director & Director General, Budget Office of the Federation March 9, 2004**

*The Mission Director had requested the meeting with the Director General, BOF, to deepen the liaison with the BOF, ascertain necessary realignments vis-à-vis the newly initiated economic reform agenda of the Government, and establish an on-going process to jointly review progress of the Budget Process Support (BPS) Project.*

#### **Attendees:**

USAID – Dawn Liberie, Mission Director; Andy Levin, A/Chief, Economic Growth & Agriculture; Eke Uka, CTO, BPS Project

BOF – Bode Agosto, Director General; Jimi Lawal, Technical Advisor to the DG; Muwiya Balogun, Personal Assistant to the DG

DAI – Rick Ernst, Borislava Mircheva, Paul Banerjee

The Mission Director thanked the DG and observed that she wished to explore the focus and significance of the assistance under BPS, be fully aware of the BOF's priorities, evaluate the impact of the assistance, and review developments on a regular basis. She remarked that as the Project was shaped under the aegis of the previous economic leadership, it is imperative to ensure that the Project's goals are attuned to the Government's reform agenda as this would support the nascent ownership, a critical element. She echoed the recent concerns expressed by the recent IMF mission (Article IV consultation) regarding the paucity of data and maintained that the Project's work should bridge this gap and assuage the deficiency.

The DG unequivocally expressed his sincere appreciation for the BPS Project and remarked on the excellent rapport. He thanked the assistance provided to strengthen analytical capacity in various areas including macroeconomic analytical strengthening, information technology, and human resources.

He clearly outlined the immense challenges that lie ahead. The BOF suffers from a weak cadre of professionals – nearly 60% are below O level (secondary school) and only close to 20% are university graduates. He sketched the priorities in the following areas:

- Bridge the knowledge gap through training over a wide spectrum – computers to economics. The Government's agreement with Microsoft would go a long way in training; the BOF is acquiring computers to reach a high staff-to-computer ratio.
- Introduce chart of accounts for the 2005 Budget. The DG requested assistance in this area.
- Harmonize tariffs with the region. No TA is needed.

- Macroeconomic training. (Note: This is an on-going activity of the BPS.)
- Initiate consultation with the civil society, public sector (line ministries), the private sector (to be led by the Nigerian Economic Summit Group), and the National Assembly. The DG requested assistance in this area, particularly for the public sector.
- Issue a Fiscal Strategy with multi-year priorities that would focus on enhancing revenues, controlling expenditures, targeting development spending, and establishing control mechanisms. PricewaterHouse Coopers will be retained to focus on the non-oil sector revenues. (About 30% of Federal revenues are from this source.)
- Issue 2005 Budget Call Circular by mid-July.
- Plan for a draft 2005 Budget by mid-September.
- Strengthen the IT sector. The DG requested the return of Mr. Guillermo Jacoby, who provided assistance in February 2004. The DG requested some funding for a local area network.

A team of experts from the private sector is assisting the DG.

The Mission Director invited the DAI team to remark on the areas of assistance. The Chief of Party observed that while the assistance is targeted to meet the BOF's Strategy, it is being reviewed to sharpen the focus and realign it with the Government's reform strategy.

<b><u>BOF Strategy</u></b>	<b><u>BPS Assistance</u></b>
<b>Boost revenues</b>	Enhance administration: short-term receipts (involve Inland Revenue, Customs)
<b>Multi-year budgeting and improved budgetary framework</b>	<ul style="list-style-type: none"> <li>• Develop a multi-year revenue and expenditure framework</li> <li>• Support development of a coherent multi-year fiscal strategy, consistent with the macroeconomic framework</li> <li>• To control spending and increase capital spending, work with selected (pilot) line ministries: <ul style="list-style-type: none"> <li>• Set priorities</li> <li>• Fix expenditure limits</li> <li>• Introduce Medium-Term Expenditure Framework</li> <li>• Introduce program-based budgeting</li> </ul> </li> <li>• Strengthen budget monitoring and reporting through improved budget classification (with the Accountant General of the Federation)</li> </ul>
<b>Restructure personnel</b>	Assistance provided; assess future needs
<b>IT solutions</b>	Assistance provided; assess next steps



Dr. Ernst emphasized the need for a sound Fiscal Strategy, which should be based on the inextricable relationships and linkages among the various economic sectors – monetary/banking; balance of payments; the real sector (consumption, investment); and the government sector. Sound macroeconomic analysis, statistical relationships, and reliable data would underpin a rigorous Fiscal Strategy.

The Mission Director concluded with the following observations:

- Overall reassurance regarding technical assistance;
- Assistance on consultation under a joint collaboration between USAID's PROSPECT Project and the BPS Project;
- A joint review with the BOF of the BPS work plan;
- On-going quarterly reviews of the BPS Project;
- A meeting with the Minister of Finance to ensure that the focus of the technical assistance is in accordance with the overall reform initiative.

**Annex III**

**RESTRICTED**

**NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY**  
**Launch – March 15, 2004**

*On March 15, 2004 the Federal Government of Nigeria presented the draft of its poverty reduction strategy – NEEDS (National Economic Empowerment and Development Strategy) and launched the process of consultation. NEEDS is a medium-term strategy (2003-07) to achieve the goals of poverty reduction, wealth creation, employment generation and value re-orientation. Following consultations, the Strategy will be finalized in the months ahead. The Strategy demonstrates a new determination and seriousness about economic and social reform. It is ambitious in scope and remains a work in progress. It is uneven and its elements are not fully consistent.*

**Summary**

**Key Messages from the Government**

**The President**

The President emphasized that NEEDS illuminates a vision and serves as the blueprint, to improve the lives of the average Nigerian. He stressed that it is a framework of action, built in close collaboration with the State governments and other stakeholders. It consolidates the achievements of the last four years (1999-2003) and builds a solid foundation for Nigeria to become the largest and strongest African economy, and become a key player in the world economy. The President noted the commitment of the states for the State Economic Empowerment and Development Strategy (SEEDS). He observed the following points during his keynote address.

- The Strategy, built on a participatory process, anchors on ownership to articulate a nation-wide agenda that springs from a democratic system.
- It is an action plan for budgeting and resource allocation, which would ensure a medium term expenditure framework (MTEF).
- SMEs, the social sector, and basic infrastructure are core priorities of the Strategy.
- It includes a monitoring system by the public, private and civil society.
- Projects are dealt with specifically at the sectoral level.

**Dr. Ngozi Okonjo-Iweala, Honorable Minister of Finance**

The Minister noted that the current economic situation is untenable. Nigeria has had lost decades of development due to negative-to-slow growth and has been one of the weakest growing economies in the world. In contrast, it should be the pillar within the continent. The Federal Government's commitment to a viable economic strategy is anchored in NEEDS.

- Food, roads, water, education, health and infrastructure will receive increased attention. The fiscal stimulus sparked by the investment would trigger growth and increased private sector participation – a key stakeholder.
- Budgetary reforms will serve as the anchor for a sustainable fiscal framework.

- A simplified tax structure would increase the much needed revenue to meet expenditure for capital projects. (The revenue gap after major privatization exercises is estimated at about \$4.5 billion per year.)

The Minister stressed the passionate commitment of the Government and the newly appointed economic team to implement NEEDS after further consultation with the stakeholders.

**Professor Charles Soludo, Economic Advisor to the President**

The Economic Advisor, the principal architect of NEEDS, observed that the Strategy is Nigeria's homegrown poverty reduction strategy paper (PRSP). He stated that the framework builds on the earlier two-year effort to produce the interim PRSP (I-PRSP), and the wide consultative and participatory processes. He stressed that NEEDS is not just a plan on paper; it is a plan on the ground and founded on a clear vision, sound values, and enduring principles.

- Six zonal workshops will be held for the six geopolitical regions. One of such meetings was being held in Enugu State for the Southeast region at the same time the launching was going on. Stakeholders such as the private sector, civil society and academia will be involved.
- NEEDS is the master plan to remedy the unsustainable past and builds on the achievement of the past four years. He noted that there is already a visible turn in the growth curve.
- NEEDS is all about value orientation.
- Estimates for the macroeconomic indicators are conservative.
- Budget reforms, the MTEF, strong capital spending to promote growth, and tax reform to mobilize resources are some of the fundamental elements.

**Mrs. Oby Ezekwesili, Senior Special Assistant to the President (Anti-corruption and transparency)**

Echoing similar views, she emphasized that anti-corruption reform initiatives will stop the leakages of public resources. She observed that this is evident in the macro framework: "Reforming Government and its Institutions" with emphasis on good governance and transparency. The framework reduces the opportunity for bribes and kickbacks, which has been an embedded phenomenon. Government procurements would be conducted in an open and public manner, and are based on clear rules and procedures that are applied in a nondiscriminatory way through the Due Process mechanism. Procurement and bidding regulations are being standardized and would be accessible to all interested parties. The anti-corruption initiatives include:

- ICPC - Independent Corrupt Practices Commission will control corruption practices.
- EFCC – Economic and Financial Crimes Commission is targeted to arrest fraud.
- Judicial reform will promote the rule of law.
- EITI – Extractive Industry Transparency Initiative will promote transparency.

**Mr. Nasir El-Rufai, Minister, Federal Capital Territory (Public sector reform)**

The Minister remarked that the role of the public sector would be that of a facilitator providing an enabling environment for the private sector to invest and operate efficiently. He stressed that the spiraling costs of in-kind benefits of public servants were absorbing resources needed for social and capital projects. The Strategy provides a framework for monetization that would reduce waste and increase productivity. He articulated the need to reform the public sector.

- Failure of a well-engendered public service has been a key factor in inhibiting growth.

- More than 65% of the Federal Government's revenues are being consumed by over one million public servants.
- The private sector is being crowded out because of the size of the public service.

The Minister concluded by stating that five targeted ministries – Finance, Federal Capital Territory, Information, National Planning and the Ministry of Education will undergo the initial round of public service reform. In summary, he maintained that the Federal Government is too large and must be slimmed down through privatization, deregulation and liberalization.

### **Mrs. Nenadi E. Usman, Minister of State for Finance (Social charter)**

She discussed the social elements of the NEEDS document with particular emphasis on gender – a pivot for development. She observed the following:

- Considerable attention is paid to the social sector through NEEDS.
- The health sector will be redefined through reforms at all levels and private-public partnerships will be encouraged for effective service delivery.
- Education is a vital sector, particularly in light of the young population. It is a sector that needs to be supported by all levels of government.
- The Federal Government will divest from the housing sector, which would free up the real estate business, particularly within the federal capital territory.

### **Comments from Participants**

In semi-officious comments, members from the private sector and the civil society expressed their support and affirmed commitment.

### **Commentary**

NEEDS is predicated on a macroeconomic framework with three main pillars:

- **Reforming Government and its Institutions.** This would include basic public sector reforms, privatization, deregulation, liberalization, good governance, anti-corruption and service delivery.
- **Growing the Private Sector.** This involves targeted sectoral strategies, security, rule of law, infrastructure, trade and regional integration.
- **Social Charter and Human Development Agenda.** Priorities include health, education, integrated rural development, employment, safety nets for the poor, gender and geopolitical balance.

The Strategy outlines various economic and social targets over the medium-term (see Table 1).

- Real GDP growth is projected to reach 7% by 2007. Overall, it implies per capita GDP growth of 3.1%. The Strategy records a strong growth of 9.6% for 2003, revised from 5% estimated earlier.<sup>3</sup> The estimated 7% growth rate for 2007 is predicated on the assumption that the reform program would generate some momentum. Inflation is estimated to ease from 11% in 2003 and hover around 9% by 2007. The momentum in real private consumption is expected to be maintained within the

<sup>3</sup> During its recent Article IV Consultation, the IMF noted that while economic policies in 2003 were expansionary, the Nigerian economy was estimated to have grown by 10.75%, due largely to rise in oil output. In addition, the strong performance of the agricultural sector also contributed to the strong growth.

medium-term.

- Capital expenditure, as a percentage of the total budget, is expected to increase from 35% in 2004 to an average of 40% by 2007, with a corresponding decline in recurrent expenditures within the same period – 65% in 2004 to 60% in 2007 – of the total budget.
- Growth in the manufacturing and agricultural sector is estimated at 7% and 6% respectively for each of the years between 2004 and 2007 – reflecting the earnings growth from non-oil exports – 5% of total exports to more than 10% in 2007. These sectors are expected to provide a significant boost to the economy and have suffered due to the absence of an adequate incentive framework, distortions in the economy, and price support mechanisms. Given the dominant role of these sectors, considerable commitment and political will is needed from the Government to make them flourish.
- The Government needs to radically redefine its role in the system to free up resources that would anchor the sectoral strategies. Taking advantage of the various arrangements within WTO and NEPAD and a vigorous implementation of the initiatives on cassava and cereals would be a big plus. However, strengthening the legal and institutional framework for the operation of micro-finance institutions would give the required incentives to SMEs to take off.
- NEEDS looks to the solid minerals sector to provide employment for at least 500,000 Nigerians. This may be doubtful and ambitious in the medium-term given the lack of adequate capacities in processing and the uncompetitive legal and regulatory framework within the sector. The issue of community unrest in areas of proven reserve deposits is likely to hinder any meaningful progress for solid minerals development.
- Imports are based on a conservative estimate and the growth rate of 15% in 2004 is expected to gradually rise to 30% by 2007. The Nigerian economy is demand-driven rather than supply-driven and therefore imports depend on goods and services. However, the rapid growth rate of population in Nigeria fuels this phenomenon.
- The Strategy is optimistic that social charter targets would be within reach. Access to socio-economic infrastructure and credit among households indicates that health, water supply, education and energy are the most elusive socio-economic infrastructure among Nigeria's growing poor population, where access to health is limited to some 40% while water supply and education are available to the privileged 48% and 45% respectively.
- About 62% of Nigerians do not have access to credit facilities. The nature of the economic, social and community structures of Nigeria, as a result of high population growth, poses problems and impede economic growth and national development. Significant boost through low-interest/soft loans would address the access to credit issue.

### **NEEDS vis-à-vis USAID/Nigeria Country Strategic Plan**

It is important to point out that NEEDS and the Strategic Objectives espoused in USAID/Nigeria Country Strategic Plan for 2004-2009 support common goals.

**SO11: Strengthened Foundations of Democratic Governance** via increased civic awareness and accountability of institutions go hand-in-hand with a principal pillar – Reforming Government and Institutions.

**SO12: Improved Livelihood in Selected Areas** is supported by Growing the Private Sector. Various initiatives including the Independent Corrupt Practices Commission, Economic and Financial

Crimes Commission, the establishment of a Due process mechanism, and economic reform would support the goal of an improved policy environment.

**SO13:** The objectives of Increased use of Social Sector Services will be promoted through the Social Charter pillar, which includes health; education; integrated rural development; housing development; employment and youth development; safety nets; and gender and geopolitical balance.

**SO14:** Reduced Impact of HIV/AIDS in Selected Areas will be supported by the Social Charter pillar. The health element of this pillar will focus on priority diseases.

In summary, the pillars of NEEDS support the strategic objectives within the Strategic Plan - strengthening democratic governance, improving livelihoods, increased use of social sector services, and reducing HIV/AIDS. The ongoing efforts of the Government would support the Strategic Plan with an opportunity to forge a partnership and an improved policy environment.

Table 2 presents a description of some of the illustrative indicators outlined in the USAID/Nigeria Country Strategic Plan (2004-2009).

**Table 1**

<b>Social and Economic Targets</b>					
	2003	2004	2005	2006	2007
Real GDP growth (%)	9.6	5.0	6.0	6.0	7.0
Oil Sector growth (%)	15	0.00	0.00	0.00	0.00
Non-Oil Sector growth (%)	5.8	7.3	8.5	8.3	9.5
Percentage reduction in poverty incidence (%)	5	5	5	5	5
Growth in real private consumption (%)	-	1	2	2	2
Inflation rate (%)	11.0	10.0	9.5	9.5	9.0
Growth in Agriculture (%)	7	6	6	6	6
Growth in the Manufacturing Sector (%)		7	7	7	7

**Table 2**

<b>USAID Country Strategic Plan (2004-2009)</b>	<b>NEEDS (Macroeconomic Framework)</b>
<b>SO11 Strengthened Foundations for Democratic Governance</b>	<b>Reforming government and institutions</b> ? Public sector reforms ? Governance, transparency, anti-corruption programs ? Judicial reform ? Broadened access to justice ? Promotion of human rights
<b>SO12 Improved Livelihood in Selected Areas</b>	<b>Reforming government and institutions</b> ? Privatization, liberalization and deregulation will promote market forces. ? Medium Term Expenditure framework will promote budgetary discipline. ? Improved transparency at the Budget Office and

<b>USAID Country Strategic Plan (2004-2009)</b>	<b>NEEDS (Macroeconomic Framework)</b>
	<p>line ministries (classification of accounts) will heighten transparency.</p> <p>? The fiscal strategy paper will set priorities.</p> <p>? Increased consultation for the budget process will promote transparency.</p> <p>? The Fiscal Responsibility Bill will advance rigor.</p> <p>? Due Process will curb corruption.</p> <p>? Strengthening revenue collection will stop leakages.</p> <p>? Managing debt effectively will lessen fiscal pressure.</p> <p>? Including the Legislature in the budget process will harness fiscal discipline and promote prudent public expenditure management.</p> <p>? Review of annual accounts and tax revenues will foster transparency and accountability.</p>
<b>SO13 Increased Use of Social Sector Services</b>	<p><b>Social Charter: Human Development Agenda and Growing the Private Sector</b></p> <p>? Education (adult literacy rate of about 65% by 2007)</p> <p>? Safety Nets</p> <p>? Access to safe drinking water to at least 70%</p> <p>? Creation of about 7 million jobs</p> <p>? Expanding existing special education programs</p>
<b>SO14 Reduced impact of HIV/AIDS in selected States</b>	<p><b>Social Charter: Human Development Agenda</b></p> <p>? Halt HIV/AIDS prevalence rate in 2004 at 7%</p> <p>? Increase immunization coverage to 60% by 2007, strengthening of NAFDAC to cover more areas, strengthening primary health care services</p> <p>? Restructure the Ministry of Health to better define health care services</p> <p>? Foster health care partnerships for effective collaboration</p>



## Annex IV

TRAINET INFORMATION		
1	Name/title of workshop	Macroeconomic Working Group
2	Target group (number of participants)	Budget Office of the Federation (4), Ministry of Finance (1), Federal Office of Statistics (2), National Planning Commission (3), Accountant General of the Federation (1), Central Bank of Nigeria (1)
3	Duration of activity	Weekly meetings
4	Training type e.g. Workshop	Training/capacity building and workshop
5	Venue of activity	<ul style="list-style-type: none"> <li>Weekly trainings are held in the BPS office</li> <li>Workshops are held in off-site locations</li> </ul>
6	Full-time (lodging)/half-time	Not applicable during the reporting period
7	Attendance (Male) (Female)	Male – 11, Female – 1
8	Cost of communication & materials	Weekly – Naira 1,000 (approximate)
9	International and local travel	<ul style="list-style-type: none"> <li><u>Local travel</u>: Not applicable during the period</li> <li><u>International travel</u>: Not applicable during the period</li> </ul>
10	Lodging and per diem	Not applicable during the reporting period
11	Counterpart funding/cost share	Not applicable during the reporting period
12	Description of activity	Training in computers, economics, financial management, econometrics, statistics, economic modeling
13	Objectives of activity	Strengthen macroeconomic capacity and budgeting process
14	Were the objectives met?	The macroeconomic training program is an evolving and on-going process with an ultimate objective of supporting the budget process to improve the policy environment.
15	Any successes related to program?	The results are showing initial signs of progress and should contribute to the reform process.
16	Lessons learnt	The structure of the group is heterogeneous from educational and experience standpoints. As such, continue to re-structure and sharpen the focus of training to bridge the gaps of the participants.